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European Review

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8 May 1985

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European Review ☐

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Switzerland's official neutrality precludes formal cooperation with NATO, but the Swiss view the Warsaw Pact as the only real threat and therefore identify with NATO interests and concerns. Unlike many neutral states, Switzerland has backed its neutrality with military preparedness that leaves no doubt as to its determination to resist an invader. There are some signs that Bern is trying to promote its version of armed neutrality among its fellow European neutrals—particularly Austria, with which it shares a common border.

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Eastern Europe: Food Situation Better, but Problems Persist

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Over the past three years, East European consumers have seen an erosion of many of the qualitative and quantitative gains in food supplies achieved in the 1970s. Import restraints, increased food exports, below-average output of many nongrain crops, and problems in state procurements from domestic producers have more than offset impressive gains in grain production. Government efforts to alleviate food supply problems through rationing and by raising food prices have increased consumer grumblings. Last year's record grain harvest and improved output of many nongrain crops will provide some relief in 1985, but problems will persist, particularly in Poland and Romania.

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Albania: Western Contacts and the Hoxha Succession

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When Party chief Enver Hoxha broke with the PRC in 1978, most experts agreed that Albania would either have to find another Communist benefactor or else seek broadened trade relations with a range of developed countries. Hoxha, however, did not respond to conciliatory overtures from Moscow, with which he had dramatically severed all ties 17 years earlier. Instead, Albania began a slow opening process that has concentrated on closer trade links with developed countries of Western Europe, but also with a few East European neighbors and several key LDCs—such as Libya, Iran, and Algeria. Although Albania's foreign policy is unlikely to change drastically following Hoxha's death, we do not rule out the possibility that Moscow may regain significant influence, especially if the new leadership splits into irreconcilable factions.

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views.

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Briefs**Greece****Opposition New Democracy Leader Announces Economic Program**

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New Democracy leader Constantine Mitsotakis last month announced an extensive economic liberalization program that effectively abandons his party's historical support of populist, interventionist policies. The program calls for abolition of many labor, credit, price, and foreign exchange controls, as well as privatizing certain state-owned firms—including some of the "ailing enterprises," recently taken over by Athens. In addition, Mitsotakis proposed making the Central Bank independent of the government and encouraging private investment through tax cuts and accelerated depreciation. Mitsotakis avoided discussing the negative aspects inherent in such a program—such as reduced public-sector spending, increased unemployment, and higher short-term inflation—and instead called for improved unemployment benefits.

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With the national election less than a month away, New Democracy's economic program is likely to help focus the public's attention on the poor state of the economy. The program obviously will appeal to the business community, which has been an outspoken critic of Papandreou's policies. At the same time, its emphasis on private initiative and independent economic institutions should also be attractive to many in the center who voted for Papandreou in 1981 because of his call for change. Mitsotakis's proposal for improved jobless benefits should also be popular, as polls show that unemployment is the most important issue to the Greek electorate.

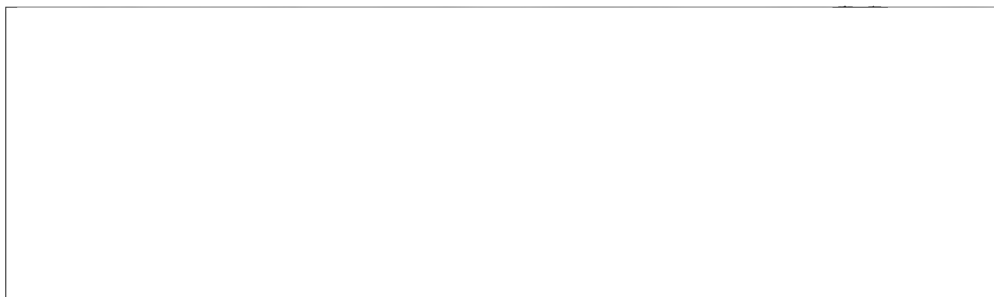
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East Germany-Italy**Honecker Visit** ☐

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East German leader Honecker's 23-24 April visit to Rome, his first trip to a NATO capital, was longer on ceremony than on substance, but helped improve the bilateral atmosphere. Honecker met with Prime Minister Craxi, with whom he signed a 10-year agreement on economic, industrial, and technological cooperation, as well as with President Pertini and Italian Communist leaders. The high-powered accompanying delegation—including Politburo members Axen and Mittag—also met Italian counterparts, and Honecker had a half-hour audience with the Pope. ☐

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East Germany's main objective probably was to gain the prestige of having Honecker feted in a Western capital. The presence of Mittag and Axen emphasized bilateral economic relations and traditional ties with the Italian Communists. Both aspects, as well as Honecker's peddling of the Soviet line on disarmament, probably made the trip more acceptable in Moscow, where bilateral political relations between East Berlin and Western capitals remain suspect. The visit was in many ways a substitute for the trip to West Germany that Honecker postponed under Soviet pressure last year. Honecker reportedly praised West German Chancellor Kohl and expressed hope for an intra-German summit this year. He apparently did not mention rescheduling his West German trip, however, which could mean he envisions meeting Kohl elsewhere, perhaps at the United Nations ☐

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Poland**New Laws To Curb Dissidents** ☐

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Poland's parliament is considering legal measures that would give the regime new powers to curb dissidents. Two bills now being discussed would increase the power of judges to speed up the trial process, to impose sentences immediately—especially when the accused is “caught in the act”—and to waive trials, without appeal, for a greater number of offenses. Other proposed changes include harsher jail terms, fines, confiscation of property, changes in the parole procedure, and travel restrictions. ☐ the provisions are intended to combat crime and to improve the court system. ☐

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Warsaw may want to impress Moscow by showing its willingness to contain the opposition. The changes, which apparently will replace special legislation that expires in December, have been under consideration for over a year. They were delayed, however, by criticism from several prominent parliamentary and judicial officials. The church, which had some success in moderating the measures adopted in 1983, probably will oppose the laws. The regime may argue that passage of the laws does not necessarily mean they will be fully implemented.



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Switzerland: A Defense Community of Neutrals?

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Switzerland's official neutrality precludes formal cooperation with NATO, but the Swiss view the Warsaw Pact as the only real threat and therefore identify with NATO interests and concerns. Unlike many neutral states both in and out of Europe, Switzerland has backed its neutrality with military preparations that leave no doubt as to its determination to resist an invader. Bern's policy of "dissuasion" is designed to convince any would-be aggressor that the cost of invading or occupying Switzerland outweighs any benefits. The Swiss are dedicated to forward defense and would fall back, if necessary, to prepared and provisioned fortifications in the Alps to carry on the battle. There are some signs that Bern is trying to promote its version of armed neutrality among its fellow European neutrals—particularly Austria, with which it shares a common border.

View of the Threat

Switzerland is officially neutral and prepares for an attack from any quarter. Nonetheless, Bern recognizes that the only likely threat is a Warsaw Pact incursion through Switzerland to strike at NATO forces in southern West Germany or northern Italy.

Defense Planning

Swiss defense planning is based on a policy of "dissuasion" designed to convince any would-be attacker that the benefits of invading or occupying Swiss territory are not commensurate with the costs. If the Swiss are attacked, they would put up a strong defense as far forward as possible. Bypassed units would fight independently using guerrilla tactics, and would try to withdraw if faced with defeat to prepared and provisioned fortifications in the Alps.

The militia system—which makes no provision for conscientious objectors—can mobilize 650,000 men in 72 hours; all members keep their individual weapons at home when not on active duty. Militia members are provided with only three weeks annual active-duty training, however, which often is not enough to make them proficient with modern weapons. Moreover, because of environmental considerations and budget constraints, combined-arms training has never been held above company level, according to attache reporting.

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The Swiss plan on being able to fight for extended periods without outside assistance or supply. Nonetheless, the Swiss military apparently foresees certain circumstances in which Bern might ally itself with NATO.

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To avoid compromising their neutrality, the Swiss produce much of their own military equipment, and they distribute their purchases of foreign arms among several Western countries. Foreign-produced equipment includes medium tanks from the United Kingdom; helicopters from France; self-propelled howitzers, armored personnel carriers, and trucks from the United States;

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Bern's decision to acquire a large number of costly West German Leopard II tanks has slowed its modernization program; new fighter aircraft and antitank missiles, for example, will not be acquired as early as expected.

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[redacted] The Swiss attribute these in part to questions in the United States about their neutral status—particularly a tendency to mistake Swiss neutrality for the Swedish variant—and about their significance in the East-West balance. In fact, however, [redacted]

- Sweden's defense has been constrained by Stockholm's spending on social programs, and by its faith in diplomacy as the best means to keep Sweden out of war. 25X1
- Finland's common border with the Soviet Union has forced it to walk a fine line between perfect neutrality and a sensitivity to Soviet military concerns, although Helsinki almost certainly would resist any Soviet invasion of Finnish territory. 25X1

The Swiss generally drive a hard bargain, often insisting on substantial local production under license. Of the 380 Leopard II tanks that Bern will purchase, for example, all but 35 will be manufactured in Switzerland. [redacted]

procurement officials have stressed that Swiss policy is to achieve independence from any weapons manufacturer and its host government. Because of concern over dependence on foreign suppliers, the initial contract normally includes spare parts for 10 to 20 years. [redacted]

Nonetheless, Bern apparently maintains a number of bilateral channels with Vienna, Stockholm, and Helsinki for the discussion of security issues and the exchange of military intelligence. [redacted] 25X1

Austria. Swiss diplomats have described the political coloration of Austria as "blue," in contrast to "pink" Sweden and Finland. Nonetheless, [redacted] 25X1

[redacted] with Austria frustrating because of the "naive and unrealistic" view of the world of many Austrians, both civilian and military. [redacted] 25X1
[redacted] detect a "Hapsburg mentality"—a readiness to acquire relatively modern military equipment as "show horses" without any real intention of integrating them into a credible military effort. In our view, however, the Swiss will try to develop closer security relationships with Austria because of their common border [redacted] 25X1

[redacted] the Swiss Air Force encouraged Austria to purchase US F-5s—like those already in the Swiss inventory. An F-5 purchase by Austria would have enabled the Swiss to assist in and monitor the strengthening of the Austrian air arm. 25X1

Contacts With European Neutrals

The combination of independence, assertiveness, and military muscle that characterizes Swiss neutrality is not shared by the other principal European neutrals: Austria, Sweden, and Finland:

- Austria's neutrality is a condition of its statehood legislated by the State Treaty to which the USSR is a party. Austrian views are also conditioned by its bitter experience in World War II when it was part of Nazi Germany. From these factors flows Vienna's desire to play a mediating role between East and West and its reluctance to implement military improvements that might evoke Soviet criticism.

[redacted] Bern viewed Vienna's indecisiveness and foot-dragging as an invitation to invade Swiss airspace from the East. Vienna's eventual choice of used Swedish Drakens rather than new F-5s probably has exacerbated Bern's doubts about the dedication of its neighbor to a serious security policy. [redacted] 25X1

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[redacted] the Swiss, particularly the Air Force, still hope, nonetheless, that closer military relations with Austria will provide a large "buffer zone" to the east of Switzerland. Such a zone would offer Bern defense in depth and time to analyze the method of attack of Warsaw Pact forces before they reach the Swiss border. [redacted]

Sweden. The Swiss and the Swedes frequently are at loggerheads in meetings of neutral and nonaligned nations. According to reporting from the US CDE delegation, many neutrals consider the Swiss "NATO's friend in court." Sweden, in contrast, has a proclivity to adopt "idealistic" positions on questions that do not directly affect its immediate security concerns. Switzerland has rejected a Swedish proposal for a nuclear-weapons-free zone in Central Europe, for example, arguing that it would have unequal effects on the two military blocs. In contrast, the US Embassy in Stockholm reports that a recent Swiss proposal for the neutrals to oversee satellite verification of arms control agreements was met with a polite but cool reaction from the Swedes, with whom the idea was not coordinated in advance [redacted]

Bern apparently enjoys good relations with Stockholm, however, in the fields of military procurement, intelligence, training, and research. Swiss Air Force pilots have practiced on Swedish fighter ranges, and Switzerland—together with Austria—is the only non-Nordic country permitted to purchase Swedish arms without a comprehensive examination by Stockholm of the political and military implications of such a sale. A Swedish intelligence officer has admitted on Swedish television that Stockholm exchanges "information" with both Bern and Vienna, [redacted]

Finland. [redacted] Switzerland and Finland maintain a continuous officer-exchange program. [redacted]

[redacted] scoffed at any suggestion of an intelligence

exchange between the two countries, however, claiming that the Swiss consider senior Finnish military personnel "too pro-Soviet" to be trustworthy. [redacted]

Multilateral Contacts

Bern has been hesitant to establish mechanisms for public or formal ties with any grouping of countries, even fellow neutrals, largely because of its reluctance to endure criticism from domestic neutrality purists. The Swiss consequently have not been a force behind the recent proliferation of multilateral neutral discussion forums. Nonetheless, recent Swiss statements at such forums suggest that Bern may be trying to promote its own version of armed neutrality, particularly with Austria. At a meeting of defense experts from the four principal European neutrals in Austria last September, according to US diplomatic reporting, the Swiss supported the Austrian position that Vienna should upgrade the capabilities of its armed forces, particularly by acquiring defensive missiles. Moreover, according to the text of the conference, the Swiss offered a largely negative assessment of detente, highlighting its emphasis on "strength and reality" in contrast to the tendency of the other attendees to concentrate on conflict limitation through creative foreign policies. [redacted]

According to a Finnish Foreign Ministry source of the US Embassy in Helsinki, the Swiss also were the most "activist" at a meeting last October of the secretaries-general of the foreign ministries of Finland, Sweden, Austria, and Switzerland. The source reports the Swiss proposed that the four neutrals take a more active mediating role between the United States and the Soviet Union. [redacted]

Outlook

Bern has modified its traditional emphasis on unilateral military strength by encouraging other neutrals to emulate the Swiss example and by

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developing a more active role in European security forums. Although Bern's neutrality concerns will limit its dealings with the other neutrals and with NATO, the Swiss apparently see some room for growth in neutral and Western defense consultation.

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Eastern Europe: Food Situation Better, but Problems Persist ☐

Over the past three years East European consumers have seen an erosion of many of the qualitative and quantitative gains in food supplies achieved in the 1970s. Import restraints, increased food exports, below-average output of many nongrain crops, and problems in state procurements from domestic producers have more than offset impressive gains in grain production. Government efforts to alleviate food supply problems through rationing and by raising food prices have increased consumer grumblings. Last year's record grain harvest and improved output of many nongrain crops will provide some relief in 1985, but problems will persist, particularly in Poland and Romania ☐

Recent Belt-Tightening

Measures to limit domestic demand for food were introduced by all East European regimes in the early 1980s, but they have had the greatest impact on food supplies in Poland and Romania. Warsaw started to ration meat, flour, milling products, butter, and chocolate in February 1981 and announced price hikes—averaging 150 percent—in February 1982, followed by smaller increases for selected items in 1983 and 1984. Romania began rationing a broad range of foods in the fall of 1981 and raised food prices by an average of 35 percent in early 1982. Following 1983's poor grain harvest, Bucharest reduced rations for meat, flour, milk, cooking oil, and sugar. ☐

The effect on consumers has been evident. The share of total expenditures by Polish workers going to food rose from 36 percent in 1980 to 43 percent in 1984. Per capita meat consumption in Poland fell from 74 kilograms in 1980 to an estimated 55 kilograms in 1984, near the level of consumption in 1971. Per capita consumption of meat in Romania, already one of the lowest in Eastern Europe, declined 24 percent from 1980 to 1983 to a level of roughly 34 kilograms. In most other East European countries food prices have increased faster than retail prices and personal income. ☐

Improved Prospects for 1985

Last year's record grain harvest of roughly 109 million tons and improved output of many nongrain crops will provide some early relief to consumers, except possibly in Romania. Most countries face higher food prices, but shortages will be largely confined to luxury foods—spices, coffee, chocolate, and citrus fruits. ☐

Polish consumers should see the greatest improvement in food supplies this year, but they will pay higher prices. Last year's record grain harvest of 24 million tons was Poland's third consecutive above-average crop. Moreover, higher procurement prices have increased producer sales of grain to the state by nearly 11 percent. An above-average harvest of rye and record output of rapeseed should permit increased exports, generating hard currency for the purchase of other foodstuffs and permitting an increase in rye-for-wheat barter with the USSR. A sharp recovery in last year's potato crop, a good hay harvest, and increased byproducts from the sugar beet industry will improve overall feedstocks and increase the output of dairy products. ☐

Prospects for increased meat supplies are less favorable. Despite improved feed supplies and better price incentives for farmers, the slow recovery in livestock numbers will limit the planned growth of meat output to only 1.1 percent in 1985, an improvement over last year but still below the depressed 1983 level. ☐

Warsaw had announced plans to raise food prices in March 1985.¹ Following criticism by official trade unions and the banned "Solidarity," however, the government later announced that price increases and selective curtailment of rationing would be

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Eastern Europe: Measures To Deal With Food Supply Problems, 1981-84

	Major Food Price Increases	Formal Rationing	Comments
Bulgaria	May 1983—meat up 23 percent, citrus fruits up 35 percent, local beverages up 28 percent	No	May 1983 decree against hoarding bread and flour issued; increases blamed on drought; seasonal prices and 10-percent consumption tax introduced in restaurants.
Czechoslovakia	January 1982—meat up 27 percent, rice up 100 percent, tobacco up 39 percent, wine up 18 percent October 1984—beer prices doubled	No	Meat prices had previously remained fixed at 1953 levels when consumption was half the current level. Meat consumption down 10 percent in 1982.
East Germany	January 1984—major price increases for selected luxury foods	No	Prices for a few basic foods remain fixed at 1960s' level; increases in prices of other food items are unannounced and occur regularly.
Hungary	June 1981—meat up 10 percent August 1982—bread, flour bakery products up average 20 percent; citrus fruits up 25 percent May 1983—sugar up 23 percent, cooking oil up 20 percent, bread up 16 percent January 1984—meat and meat products up 21 percent, poultry and fish up 10 percent	No	1982 price increases needed to maintain balance between production and consumption and to reduce subsidies. Increases in 1984 ostensibly attributed to drought in 1983.
Poland	February 1982—food prices up average 150 percent, pork up 325 percent, sugar up 340 percent, coffee up 40 percent January 1984—prices up average 10 percent	February 1981—meat, sugar fats, chocolate, butter, flour and rice rationed	In early 1982 meat rations cut to 2.5 kg per month. Promises to end "temporary" rationing have gone unfulfilled.
Romania	February 1981—food prices up average 35 percent, meat up 64 percent October 1983—prices raised for bread and dairy products	October 1981—ration decree issued, consumers restricted to specified markets 1982—broader rationing of bread, flour products, rice, sugar, and cooking oil 1984—meat and flour rations reduced	Rationed items and levels differ locally; problems worsened by large cuts in imports, poor harvest in 1983. Private transportation of foodstuffs within country forbidden; restrictions on sale of privately produced foodstuffs.
Yugoslavia	September 1982—sugar up 18 percent, cooking oil up 17 percent, margarine up 18 percent February 1983—fresh meat up 31 percent, basic agricultural produce up 22 percent	February 1983—coffee and oil temporarily rationed in Belgrade and other areas	Problems exacerbated by high inflation, difficulties in procuring grain from private farms, and poor producer price incentives.

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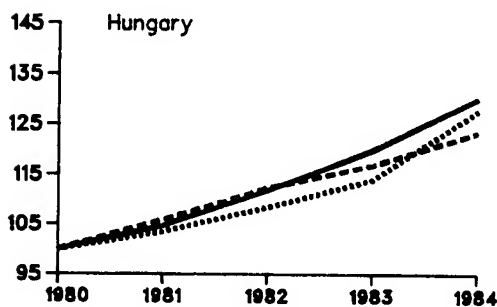
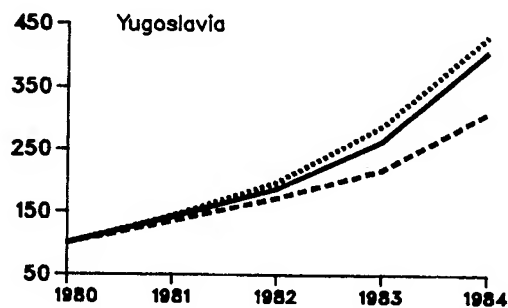
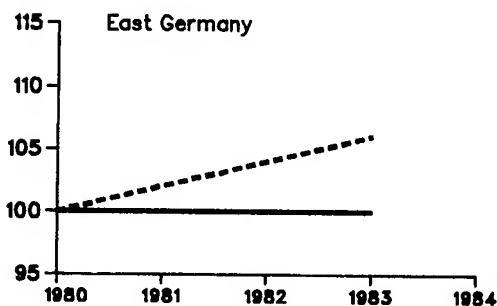
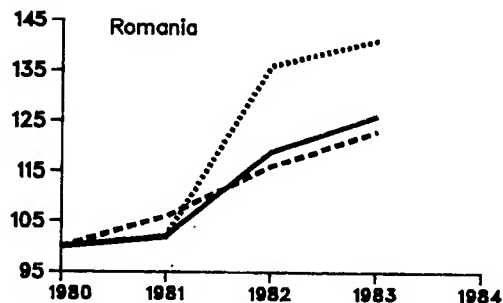
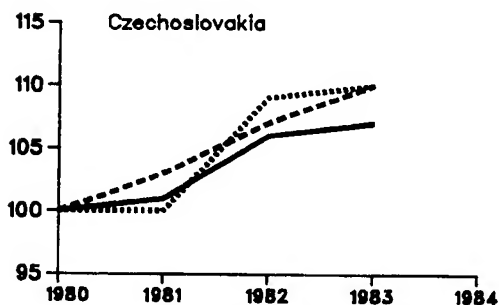
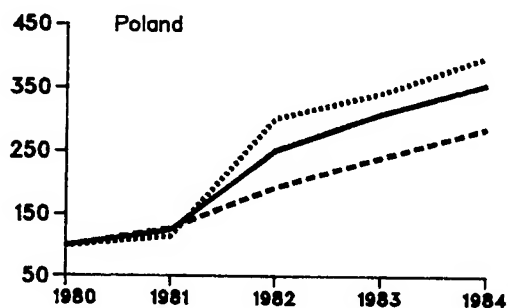
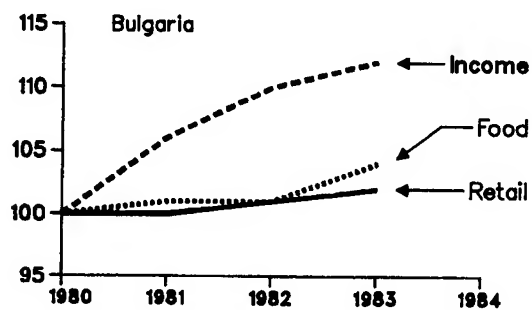
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Eastern Europe: Trends in Prices and Personal Income^a

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Note scale change

^a Based on official country statistics.

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implemented in stages. In the first stage, prices were raised in March for flour, cereals, bread, sugar, edible oil, tea, milk, and cheese. Rationing was lifted on most flour and grain products. Prices for rationed meat and meat products are scheduled to increase by 10 to 15 percent in June. Officials have stated that price increases are necessary not only to limit demand, but also to avoid increases in food subsidies resulting from higher procurement prices put into effect last July. ☐

Romania's prospects for any significant improvement in food supplies in 1985 appear bleak. We estimate last year's grain output was near 18 million tons, a slight improvement over 1983 but almost 1 million tons below the 1978-82 average. Official data show that planned production and deliveries to state stocks of corn, potatoes, vegetables, and fruits were exceeded in 1984. Production of meat, milk, and eggs was also reported to be up over a year earlier. Past experience, however, suggests that such claims may be exaggerated. ☐

Any gains in 1985 will not benefit consumers significantly unless imports of grain, feedstuffs, and food are increased; exports curtailed; and greater priority given to domestic consumption—none of which is likely to occur. With Bucharest's emphasis on reducing its hard currency debt, we believe further cuts in agricultural imports are likely and that priority will be given to increasing, or at least meeting, export commitments. ☐

In the rest of Eastern Europe:

- Consumers in *Hungary* should be best supplied in 1985, thanks to last year's recovery in both the crop and livestock sectors. Sharply higher prices for many foods, however, will be only partially offset by increased wages and benefits.
- Consumers in *East Germany* will benefit from last year's record grain harvest and good potato crop. Supplies of meat, milk, and eggs should rise, and increased subsidies will hold prices of many basic foods at mid-1960s levels.
- In *Czechoslovakia*, a 3.5-percent upturn in agricultural output and a record 1984 grain harvest

Record Grain Production, Declining Food Supplies

Grain production is the primary determinant of total food supplies in Eastern Europe, but other factors play an important role. Despite the region's three consecutive above-average grain harvests, food availability declined sharply in 1981-84 as a result of the following:

- *A 17-million-ton increase in domestic grain output from 1981 to 1984 was partially offset by a 7-million-ton decline in imports.*
 - *Poor output of many oilseed crops and a falloff in sugar beet production led to rationing of cooking oil and sugar in some countries.*
 - *Below-average output of many domestic forage crops, including potatoes, reduced total feed supplies and led to a decline in livestock output.*
 - *Lower imports of high-protein feeds diminished the effectiveness of other livestock feeds, primarily grain, partially offsetting increases in grain output.*
 - *In Poland and Yugoslavia, where the private sector is the main supplier of agricultural products, difficulties in procuring grain because of unfavorable pricing policies resulted in shortages of state feed supplies at a time of record grain output.*
 - *The quality and diversity of domestic grain output was not always sufficient to meet grain requirements for either food or livestock use.*
 - *Financial problems curtailed imports of luxury foods such as coffee, tea, and citrus fruits.* ☐
-

should allow continued improvement in livestock output. Price increases for milk and milk products are rumored, however.

- *Yugoslavia's excellent grain crop in 1984 should reduce wheat imports sharply and allow for*

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increased exports of corn to generate hard currency for the purchase of other agricultural goods. The current surplus in meat supplies—because of falling domestic consumption caused by higher prices and dwindling export demand—could change abruptly if cattle raising remains unprofitable and producers reduce herds.

- *Bulgaria's* below-plan output of corn, sugar beets, sunflowers, and potatoes last year, following the poor harvest of 1983, will limit livestock output and could force additional imports of grain, vegetable oils, and sugar. Market supplies may tighten, but Bulgarian consumers will still fare better than most of their East European counterparts. ☐

Consumer Discontent

Unusually tight supplies of largely luxury foods and meat during the past holiday season and rumors of higher prices heightened popular discontent throughout the region. Even where severe shortages have not occurred, availability and selection have often been less and prices higher relative to past years. In many instances, however, consumer dissatisfaction appears out of proportion with actual declines in availability, suggesting sensitivity to an often perceived drop in living standards and impatience over the government's failure to live up to previous commitments. ☐

Although complaints will continue, we see little potential for political fallout from food supply problems except in Romania and possibly Poland. The East European regimes have defused troublesome situations in the past by releasing food from state stocks and in a few instances by allowing additional imports of selected food items. Most governments will probably sweeten the pill of higher prices by ending rationing where feasible, improving social benefits, and selectively increasing wages. ☐

Polish consumers will be the most vocal in registering their complaints. Although the gap between past and current levels of supply will remain large, particularly for meat, we do not foresee serious unrest. Increases in procurement prices are likely in July, adding to retail price pressures. Nonetheless, Warsaw is expected to remain cautious about upsetting public opinion even if it means increased food subsidies. ☐

The situation in Romania will remain more uncertain. If Bucharest permits market supplies to improve or at least stabilize, the situation could remain quiet. Having experienced the major price and rationing shocks of 1981-82, Romanian consumers may be resigned to their present lot and preoccupied with just "getting by" on a daily basis. Some evidence suggests that an increase in second economy transactions, private arrangements made through contacts and relatives in the country, and bargains with store clerks and restaurant employees have helped ease decreased food availability in state outlets. If, on the other hand, Bucharest decides to squeeze the consumer even harder, or a sharp downturn in agricultural output in 1985 reduces food supplies still further, there would be greater potential for unrest. ☐

Longer Term Outlook

Reduced Expectations. The problems of the past few years have led most East European regimes to postpone or at least scale back future commitments for an improved diet. Polish and Romanian officials have been candid in warning consumers that expectations must be lowered, particularly with regard to meat consumption. Romanian President Ceausescu has even chided consumers for overindulging in daily caloric intake, despite the decline in the quality of their diet over the last three years. In Poland per capita meat consumption is planned not to exceed 63 kilograms by 1990, compared to 74 kilograms at the beginning of this decade. Even Czechoslovakia, which faces few financial difficulties, has announced that the planned rate of increase in meat consumption will be reduced to enable the country to become more self-sufficient in grain. Most countries are counting on increased consumption of dairy products to compensate for the drop in meat consumption. Such changes will be difficult and involve extensive propaganda and educational efforts. ☐

Higher Food Prices. Consumers will face more frequent price hikes as the regimes continue to dampen or redirect demand and reduce sizable budget outlays for food subsidies. Food price policies of most countries will likely fall between those of Hungary,

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which is trying to make prices reflect more closely the true cost of production, and those of East Germany, which continues to hold prices of many basic food items at the level of the mid-1960s. Prices of imported luxury foods are likely to rise the most, prices of staple items like bread and flour the least. Although meat is one of the most heavily subsidized foods, most regimes probably will be more cautious about increasing meat prices because supplies and prices are a sensitive issue with consumers. Any shortfalls in domestic output that result in increased imports could lead to sharply higher food prices. In fact, a downturn in output attributable to bad weather—even if not very severe—would provide a ready excuse for additional price hikes.

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Albania: Western Contacts and the Hoxha Succession

When party chief Enver Hoxha broke with the PRC in 1978, most experts agreed that Albania would either have to find another Communist benefactor or else seek broadened trade relations with a range of developed countries. Hoxha, however, did not respond to conciliatory overtures from Moscow, with which he had dramatically severed all ties 17 years earlier. Instead, Albania began a slow opening process that has concentrated on closer trade links with developed countries of Western Europe, but also with a few East European neighbors and several key LDCs—such as Libya, Iran, and Algeria. Although Albania's foreign policy is unlikely to change drastically following Hoxha's death, we do not rule out the possibility that Moscow may regain significant influence, especially if the new leadership splits into irreconcilable factions.

Recent Exchanges

In recent years, Tirane has exchanged delegations with several West European countries. Albania has concentrated on Greece and Italy, but has also intensified dialogue with Turkey and West Germany—a country with which it does not yet have diplomatic relations. The most important recent contacts have been with Greece, Italy, West Germany, and Turkey.

Greece. Tirane's relations with Athens continue to improve, despite tensions over the Greek minority in Albania and a technical state of war between the two countries. Early last December, Greek Alternate Foreign Minister Papoulias traveled to Albania to sign agreements on cultural exchanges, transportation, and trade. Last October, a senior Albanian Trade Ministry official led a delegation to Greece for talks with government and industry officials, and in January the Albanian Foreign Trade Minister went to Athens to meet with senior economic officials. The two countries recently opened two border crossings and agreed to establish a ferry link between Albania and the Greek island of Corfu.

Italy. The Albanian Deputy Foreign Minister visited Rome last December, only three months after the Italian and Albanian Foreign Ministers met at the United Nations. In February, the Albanian Cultural Minister and Italian Foreign and Cultural Ministers met in Rome to promote broader cultural ties. Italian officials told US diplomats last July that Italian firms are negotiating to supply a variety of equipment and industrial plants to Albania.

West Germany. Last August, Bavarian Premier Franz Josef Strauss went to Albania on what was described as a tourist visit.

the press reported that he met with the Albanian Deputy Premier. US diplomats report that officials from both countries met in Vienna last November to discuss establishing diplomatic relations. Bonn reportedly has offered economic and technical cooperation, but rejects any agreement until Tirane drops its demands for war reparations.

Turkey. In mid-February, Turkish Minister of State Mustafa Tinaz Titiz went to Tirane to sign a new trade protocol. The visit revitalized the relationship, which had been cordial but low-key since early last year.

United Kingdom, and France since World War II. According to diplomatic reporting, Tirane in early 1983 for the first time established a regular dialogue on the issue with the United States and United Kingdom through French intermediaries. In late February, the regime agreed to face-to-face negotiations with the United Kingdom, which will represent US interests. It finally dropped its longstanding demand that the gold be returned before discussing Western compensation

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claims for property seized or destroyed by the Communist regime. []

Limitations

In addition to problems in using Western imports, Tirane is still bound by many of its own ideological restrictions on relations with the West. The regime refuses to accept Western government and bank credits—a policy enshrined in the Constitution—which largely limits Albania to countertrade or pay-as-you-go trade arrangements. According to diplomatic reporting, the Albanians do not concede the need for Western companies to make a profit, and seem incredulous that a Western company can operate outside government control. The limited variety of Albanian goods potentially salable in Western markets—mostly raw materials and foodstuffs—also restricts Tirane's ability to expand trade ties. []

A modest expansion of trade with the West has accompanied the increase in political contacts. While figures for total trade with Albania's major Western partners have fluctuated over the period 1981-84, Albanian imports of machinery and manufactures apparently have increased continuously. Italy, which is Tirane's main Western trading partner, reported a 60-percent increase in deliveries of such goods from 1981-83 and an estimated 35-percent increase in 1984. France has reported similar trends, including an estimated 75-percent growth in manufactured exports in 1984. []

Imports of technology, however, have not revived economic growth, and the leadership apparently is concerned that the economy has been unable to absorb fully imported Western technology. In late December, the main party daily complained editorially that Albanian industry was not properly using acquired technology and went on to criticize officials still pushing for more. Current investment and industrial output figures deepen the impression of absorption problems. According to official figures, industrial production grew only 3.3 percent in 1984, well below both the planned level of 8.5 percent and actual growth rates from 1975 to 1982. By our calculation, investment—targeted for growth of 3.6 percent—fell 8 percent in 1984, indicating that the

Albania:

Million US \$

Trade With Industrial Countries

	1979	1980	1981	1982	1983	1984 ^a
Exports	108	98	121	121	100	110
Imports	79	80	108	137	104	114

^a Preliminary estimate.

[] economy is having trouble introducing new plants and equipment. The 1985 plan calls for growth rates lower than the 1984 plan in industrial output and investment, probably reflecting in part a growing recognition among planners of absorption problems. []

USSR and Eastern Europe

The Soviet Union and its allies have long recognized the political and military utility of a friendly government in Tirane. Their efforts to coax Albania back into the Soviet fold picked up as Hoxha aged and will probably intensify now that he has died. []

[] the Bloc countries were again pressing Tirane to increase the level of its diplomatic representation in their capitals. On occasion, top Soviet leaders have courted Albania in their public statements—including General Secretary Gorbachev last summer—and the Moscow press is following suit. After Hoxha's death, the Soviet and several East European Communist parties sent condolence messages to the Albanian Party—the first attempted party-level communications in two decades. []

In the past two years, Bulgaria, along with East Germany, has spearheaded the Soviet Bloc effort to reduce Albanian hostility. Bulgaria is well suited to play this role because both Sofia and Tirane share problems with Belgrade over treatment of national minorities. Tirane now seems to be allowing some

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expansion in its ties with Sofia, although with characteristic caution. In April 1984, the countries signed an agreement calling for a 7-percent increase in bilateral trade—after a drop of 19 percent from 1982 to 1983. Last December, according to the US Embassy in Sofia, Bulgarian Deputy Foreign Minister Ganev was believed to be in Tirane; if true, the visit was the highest level exchange in two decades. The Albanian press, moreover, appears to have muted the attacks on Bulgaria that characterized its approach only a year ago. ☐

Tirane, however, continues to reject overtures from other East European countries. It publicly rejected the Soviet condolence message on Hoxha's death and has not publicly recognized those of the East Europeans. Similarly, the Albanian press did not reciprocate conciliatory statements made by some East European media on the occasion of the regime's 40th anniversary last November ☐

Policy Continuity Under Hoxha's Successors

Albania's foreign policy is unlikely to change drastically in the wake of Hoxha's demise. A collective leadership—with First Secretary Ramiz Alia as first among equals—has replaced Hoxha; this group was already running the day-to-day affairs of the regime during the last two years of Hoxha's illness. ☐

Nonetheless, Alia will probably begin trying to consolidate his position. A power struggle based on ideological differences, personal interests, and clan antagonisms is a likely outcome. From what little information we have, however, it appears that differences in the leadership over foreign policy are between those who see ties to the outside world as a way to surmount some of Albania's economic difficulties and those who favor continued isolation as part of an overall policy of political orthodoxy. At least for now, the disagreements do not appear to pit Western-oriented against Eastern-oriented factions. ☐

The scanty evidence indicates that most Albanian leaders prefer independence from both Eastern and Western blocs. They probably calculate that economic assistance from the Warsaw Pact would be limited and would come with unacceptable political strings attached. They are also likely to realize that any move toward Moscow would increase Belgrade's inclination to interfere. Moreover, most younger technocrats appear to support Alia's apparent commitment to developing Western economic ties, increasing the chances that the post-Hoxha leadership will continue this policy at least for the near term. ☐

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Nonetheless, we do not rule out the possibility that Moscow might eventually regain significant influence, especially if the post-Hoxha regime should split into irreconcilable factions. In a power struggle, some hardliners might decide to turn to the Soviets for help, calculating that closer ties with Moscow would be an acceptable price to pay for domestic power. ☐

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Economic News in Brief**Western Europe**

EC imports of crude oil and petroleum products rose by 3 percent last year, despite a 9-percent hike in EC crude oil production . . . first rise since 1979 . . . increase largely due to British coal miners' strike.

In semiannual joint forecast, West Germany's five major economic research institutes project 2.5-percent real GNP growth and a slight increase in joblessness this year . . . forecast somewhat more pessimistic than other projections. Foreign demand will again be the main source of growth . . . indeed, West German economic vitality seems increasingly dependent on the external sector.

West German government and business stepping up R&D spending this year . . . according to Battelle Institute, real 1985 R&D spending will rise at least 4 percent; gains in early 1980s averaged only 1.3 percent . . . this year's increase will about match the expected US gain; both countries already devote 2.8 percent of GNP to R&D (public and private) versus 2.6 percent for Japan.

Italian state steel firm, FINSIDER, recently awarded five-year, \$2 billion contract by Moscow for steel pipes and tubes, according to press reports . . . 6-million-ton order will be paid in cash . . . deal is important order for the financially troubled Italians, whose losses of about \$800 million last year placed major strain on state heavy industry group.

Spanish Socialists' efforts to reform social security benefits has sparked labor opposition . . . Madrid believes changes in eligibility and cuts in pension and disability benefits are essential to hold down expenditures . . . government not willing to compromise on paring down benefits, the part of the reform package trade unions object to most.

Renault, the pride of France's nationalized industries, lost over \$1.3 billion in 1984 and will seek nearly \$800 million from the state to cover losses . . . by contrast, Aerospatial earned \$33 million last year after a similar loss in 1983 . . . orders grew by 57 percent and are expected to grow another 50 percent this year, according to Aerospatial's CEO . . . he expects firm to shift toward production using more engineering and less labor.

Eastern Europe

On 30 April, Hungary became first East European CEMA member to join the World Bank's International Development Association (IDA) and International Finance Corporation (IFC) . . . IDA membership will give Budapest greater opportunity to bid on projects in the LDCs . . . Budapest apparently expects to draw on IFC loans to help finance its private sector and agricultural cooperatives.

Polish economic performance in early 1985, the worst in three years, due mainly to unusually cold winter . . . hard currency exports down by 12.8 and imports by 3.4 percent . . . industrial production stagnated in the first three months . . . although some weather-related losses can be made up, Poland already has lowered hard currency export targets . . . decline in earnings probably will lead to cuts in industrial imports, which may depress output in some sectors later this year.

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Looking Ahead

May
Cyprus

Coming elections in Turkish Cyprus for president on 26 May and for legislature on 23 June, will establish the "legal" foundations of the "Turkish Republic of Northern Cyprus" . . . not likely to enhance the international status of the Turkish Cypriot community . . . completion of the elections could pave the way for renewed intercommunal talks under UN auspices. ☐

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June
Netherlands

Five members of the Dutch parliamentary defense committee, representing the major political parties, will visit Washington during the first week of June . . . want to discuss emerging technologies, bilateral arms sales, and perhaps Strategic Defense Initiative . . . findings probably will be included in a new white paper on emerging technologies, and may affect The Hague's approach to a NATO study on long-term defense planning for the Alliance. ☐

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Eastern Europe-
Poland

Warsaw will host the annual CEMA Council session in June . . . prime ministers will focus on plans for 1986-90 . . . may conclude arrangements for joint investment projects. ☐

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